

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 FEA-01 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

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TO SECSTATE WASHDC 5057

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TAGS: GATT, ETRD, PO

SUBJECT: GATT BOP CONSULTATIONS - PORTUGAL

REF: (A) STATE 176292; (B) GENEVA 5261

BEGIN SUMMARY: PORTUGAL TOLD BOP COMMITTEE THAT ECONOMIC PLAN FOR 1976-78 WILL DETERMINE WHAT FOLLOWS IMPORT SURCHARGE. COMMITTEE CONCLUDED SURCHARGE APPLICATION CONFORMED TO GATT BOP CRITERIA. END SUMMARY.

1. SOMEWHAT SURREAL JULY 28 AND 31 GATT BALANCE OF PAYMENTS COMMITTEE EXAMINATION OF PORTUGAL TOOK PLACE AGAINST CHANGING HEADLINES OF FLUID EVENTS IN LISBON. PORTUGAL LAID BLAME FOR BOP DIFFICULTIES ON NEED TO IMPORT FOOD, OIL COSTS, WORLD RECESSION, EFFECTS OF DECOLONIZATION, AND EXPORT SUPPLY DIFFICULTIES DUE TO SOCIAL AND POLITICAL CHANGE AT HOME. PORTUGAL SAID TRADE DEFICIT FOR FIRST FIVE

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MONTHS 1975 WAS \$570 MILLION; EXPECTED REACH \$1.2 BILLION

FOR YEAR. SAID SURCHARGE TO EXPIRE DECEMBER 31, 1975, AND CONTENTS OF 1976-78 ECONOMIC PLAN WOULD DETERMINE WHAT WOULD FOLLOW. IMF SAID CURRENT SURCHARGE SHOULD ASSIST IN SLOWING BOP DECLINE AND BUY TIME FOR FISCAL AND MONETARY MEASURES TAKE EFFECT.

2. EC WAS MORE ACTIVE THAN USUAL FOR THIS COMMITTEE; NOTED 45-50 PERCENT OF PORTUGAL'S TRADE WAS WITH EC AND SAID PORTUGAL HAS NEED OF ASSISTANCE FROM THEIR "MAJOR NEIGHBORS." EC COMPLAINED OWN TRADE WAS AFFECTED AND QUESTIONED WHETHER SURCHARGE WAS BEST SOLUTION SINCE PORTUGAL USING FLOATING EXCHANGE RATE. PORTUGAL SAID IMPORT DEPOSIT NOT USED BECAUSE OF EXISTING LIQUIDITY PROBLEMS. QRS NOT USED BECAUSE THIS IS "CARDINAL SIN" OF TRADE PRACTICE AND PORTUGAL RELUCTANT ESTABLISH TROUBLESOME MACHINERY REQUIRED. EC THEN RELENTED AND AGREED SURCHARGE WAS APPROPRIATE IN CURRENT CIRCUMSTANCES. U.S. SAID SURCHARGE WAS PREFERABLE TO MORE SEVERE FORMS OF RESTRICTION, AND PORTUGAL AGREED.

3. U.S., EC, JAPAN UNDERSTOOD SERIOUSNESS OF PORTUGUESE SITUATION AND NEED FOR CORRECTIVE ACTION, HOPED FOR EARLY END TO SURCHARGE, AND URGED THAT MEASURES IN 1976 TAKE ACCOUNT OF NEEDS OF PORTUGAL'S TRADE PARTNERS. PORTUGAL HAD NO DETAILS ON CONTENTS OF PLAN, WHICH WILL NOT BE FINALIZED BEFORE END OF 1975. U.S. ASKED PORTUGAL'S PLANS FOR DRAWING ON IMF RESOURCES, INCLUDING OIL FACILITY. PORTUGAL SAID THEY HAVE ALREADY INFORMED IMF THEY WOULD DRAW ON GOLD TRANCHE AND INFORMALLY TOLD IMF THEY PLAN USE OIL FACILITY, PLAN OPEN FORMAL DISCUSSIONS BY END OF YEAR. PORTUGAL REPEATED CRITERIA USED ON SURCHARGE APPLICATION AS GIVEN IN REFTEL (B).

4. COMMITTEE CONCLUDED THAT APPLICATION OF TEMPORARY SURCHARGE CONFORMED TO CRITERIA LAID DOWN IS RELEVANT ARTICLES OF GATT ON IMPORT RESTRICTIONS FOR BALANCE-OF-PAYMENTS PURPOSES. NOTE: PORTUGAL PREFERRED CITE SPECIFIC RE COURSE TO GATT ART XVIII (I.E., LDC STATUS WHICH WOULD HAVE PRECLUDED FURTHER GATT EXAMINATION FOR TWO YEARS), BUT DID NOT PRESS POINT. U.S. (PER PARA 3 REFTEL (A)) LIMITED OFFICIAL USE

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AND EC RESISTED, AND NO SPECIFIC ARTICLE WAS CITED. THUS, IF SURCHARGE IS CONTINUED OR IS REINSTITUTED BY 1976-78 PLAN, BOP COMMITTEE CAN HOLD ANOTHER CONSULTATION IN 1976. DALE

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